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## Agenda Item 3b

June 13, 2011

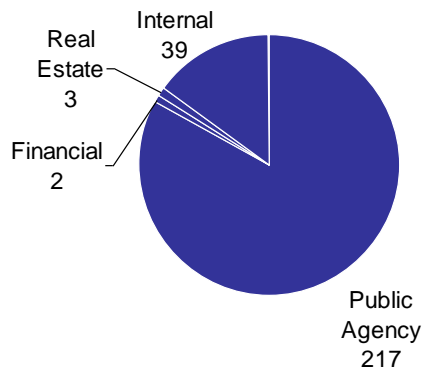
### TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Office of Audit Services Quarterly Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

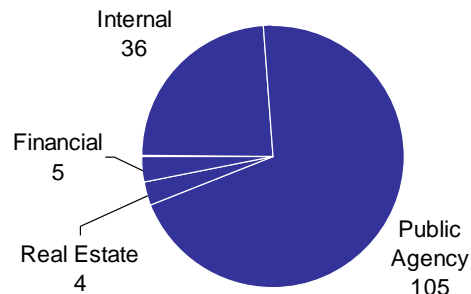
In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of March 31, 2011.

#### 1. Status of findings

*Figure 1 - Current Fiscal Year  
Open Findings*



*Figure 2 - Prior Fiscal Years  
Open Findings (2004-2010)*



The charts above provide a summary of the types of open findings. Attachment 1A provides a dashboard status of the audit findings. Detail on all findings is available on file in the Office of Audit Services, upon request, and has been distributed to all appropriate divisions.

## **2. Acceptance of risk**

In accordance with the Audit Resolution Policy and Procedures, senior management may decide to assume the risk of not correcting the reported condition because of cost of other considerations. There are no acceptance of risks to report for this quarter.

## **3. Finding trends**

### Current Year Third Quarter Findings

- There were 151 public agency findings issued during this third quarter and 42 findings, or 28 percent, have been addressed and are complete. Attachment 2A provides significant public agency review findings for this quarter.
- There were 5 internal audit findings issued during this third quarter. Attachment 3A provides an executive summary of the internal audit completed this quarter.

### HIPAA-Related Findings

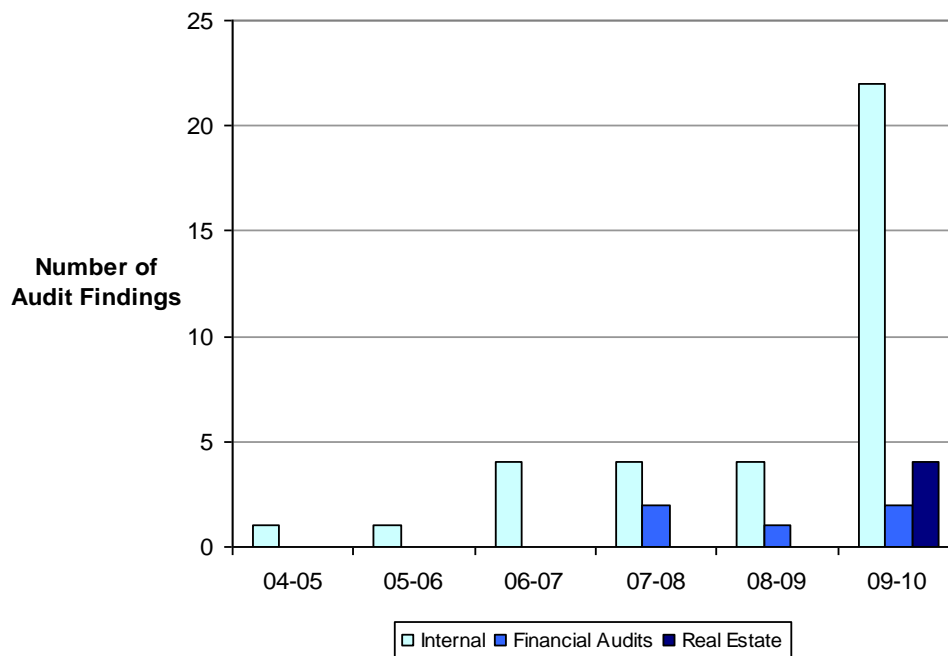
At the request of the Finance Committee, we have included the status of the Health Insurance Portability and Accountability Act (HIPAA) findings. During this quarter, one finding remains in progress. The detailed status is provided in Attachment 4A of this agenda item.

### Financial Statement Audit Findings

At the request of the Finance Committee, we have included the status of the two current year findings in Attachment 5A and the status of prior year findings in Attachment 5B of this agenda item.

The following graph provides an aging summary of the prior years' audit findings.

**Figure 3 – Aging of Prior Years Open Findings**



Consistent with the Audit Resolution Policy and Procedures, the Office of Audit Services continues to work with management to resolve all outstanding issues.

**Contracting Public Agency Reviews – common issues and examples:**

- *Incorrect payroll reporting* (payroll reporting elements such as work schedule codes, payrates, regular earnings, special compensation, and salary adjustments were not reported correctly).
- *Membership* (part-time employees were not enrolled into membership when eligibility requirements were met).

Specifically, from the twenty one reviews completed during this third quarter, we found eleven instances of public agencies not enrolling part-time employees when they reached 1,000 hours worked in a fiscal year. Also, we found five instances of public agencies not enrolling part-time employees with prior CalPERS membership.

- *Incorrect reporting of compensation* (non-reportable compensation such as overtime pay reported, reportable compensation such as uniform allowance not reported, special compensation not reported correctly).

#### Internal Audits – common issues and examples

- *Processes* (absent, incomplete, or outdated processes or implementation issues). Inadequate processes increase the risk of non-compliance with laws, regulations, and policy. Inadequate processes could also hinder achievement of business objectives.
- *Documentation* (absent, incomplete, or outdated documentation supporting transactions, reviews or contracts). Inadequate documentation increases the risk of ineffective program oversight and could also hinder succession planning efforts.

#### Real Estate Compliance Review – common issues and examples

- *Fees and unallowable costs* (charging for fees and costs not specified, correctly calculated, or allowable by agreement)
- *Vendor contracting* (improper bidding or unsubstantiated bids for work contracted, no executed contracts on file, or lack of required clauses)
- *Accounting and reporting* (weaknesses in accounting systems, inadequate reconciliations, untimely submission of reports)

#### 4. Status of projects

**Table A – Summary of Activities**

Type of Project	2009-10 Audit Plan	Projects In Progress	Projects Complete
Internal Audit, Consulting and Follow-Up (Attachment 6A)	53 <sup>A</sup>	37 <sup>B</sup>	14 <sup>B</sup>
Public Agency Reviews (Attachment 6B)	79 <sup>A</sup>	37 <sup>B</sup>	51 <sup>B</sup>
Financial Statement and Real Estate Contract Audits (Attachment 6C)	n/a	7 <sup>A</sup>	7 <sup>A</sup>

<sup>A</sup> - Includes seven deferred internal audits and three new projects for internal audits as shown in the Attachments. For public agency, six deferred public agency reviews and a reduction of 25 reviews due to staff vacancies and reduced work hours.

<sup>B</sup> - Includes audits started in prior fiscal year as shown in the Attachments

Table A above provides a summary of the projects by categories.

- Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audit also includes audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services.
- Field reviews include compliance reviews of employers belonging to the System.
- Financial statement and real estate audits are contract audits performed by external auditors.

#### V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

**VI. RESULTS/COSTS:**

There is no additional cost for this specific agenda item.

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MARGARET JUNKER, Chief  
Office of Audit Services

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PETER H. MIXON  
General Counsel

Attachments